

**REPORT OF THE AUDIT OF THE
MEADE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**

**EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MEADE COUNTY FISCAL COURT**

June 30, 2005

Richardson, Pennington & Skinner, PSC has completed the audit of the Meade County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, and each major fund. We have issued a qualified opinion on the discretely presented component unit since its financial statements were prepared in accordance with generally accepted accounting principles, which is inconsistent with the modified cash basis used by Meade County.

We did not audit the financial statements of the Meade County Solid Waste Department, a discretely presented component unit. Other auditors audited those financial statements, and our opinion, insofar as it relates to the amounts included for the Meade County Solid Waste Department, is based on the report of the other auditors.

Financial Condition:

The fiscal court had net assets of \$9,400,249 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,202,311 in its governmental activities as of June 30, 2005, with total net assets of \$9,371,822. In its business activities, total net cash and cash equivalents were \$30,008 with total net assets of \$28,427. The fiscal court's discretely presented component unit had net assets of \$30,298 as of June 30, 2005. The discretely presented component unit had cash and cash equivalents of \$177,866. The fiscal court had total debt principal as of June 30, 2005 of \$6,373,000 with \$140,000 due within the next year. The discretely presented component unit had total debt principal as of June 30, 2005 of \$537,695 with \$81,117 due within the next year.

Report Comment:

None

Deposits:

As of June 30, 2005, all of the fiscal court's deposits were insured and collateralized by bank securities or bonds.

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Joseph E. Richardson
William A. Talley
Jon D. Chesser
Bob E. Wientjes
Ruth A. Payne

Kentucky Offices:
Louisville
Brandenburg
Hardinsburg
Leitchfield

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable William B. Haynes, Meade County Judge/Executive
Members of the Meade County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of Meade County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Meade County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Meade County Solid Waste Department, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Meade County Solid Waste Department, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Meade County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements of the Meade County Solid Waste Department, a discretely presented component unit, are presented according to accounting principles generally accepted in the United States of

America. This basis of accounting is different from the modified cash basis of in that certain accruals of assets, liabilities, revenues, and expenses are made to the financial statements of the Meade County Solid Waste Department that are not recognized under the modified cash basis of accounting.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Meade County Solid Waste Department financial statements been prepared using the modified cash basis of accounting as Meade County, Kentucky, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of Meade County, Kentucky, as of June 30, 2005, and the changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Meade County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 15, 2006 on our consideration of Meade County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 14 and 40 through 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted

Richardson, Pennington, & Skinner PSC

Louisville, Kentucky
May 15, 2006

MEADE COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

William B. Haynes	County Judge/Executive
James Anthony Staples	Magistrate
Herbert Chism II	Magistrate
Donald E. Callecod	Magistrate
Theresa L. Padgett	Magistrate
Harold E. Davidson	Magistrate
Kent Allen	Magistrate

Other Elected Officials:

Darren Sipes	County Attorney
Troy Seelye	Jailer
Katrina Fitzgerald	County Clerk
Evelyn D. Medley	Circuit Court Clerk
Cliff Wise	Sheriff
Mark Straney	Property Valuation Administrator
Bill Adams	Coroner

Appointed Personnel:

Shirley Fackler	County Treasurer
Anna Roberts	Payroll Officer
Mary Coghill	Finance Officer



Magistrates:
James A. Staples
Herbert Chism II
Donald Callecod
Theresa Padgett
Harold Davidson
Kent Allen

WILLIAM B. HAYNES
Meade County Judge/Executive

516 FAIRWAY DRIVE
BRANDENBURG, KENTUCKY 40108

(270) 422-3967
FAX (270) 422-3262

Deputy Judge/Executive
Anna Roberts

Treasurer
Shirley Fackler

MEADE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The financial management of Meade County, Kentucky offers readers of Meade County's financial statements this narrative overview and analysis of the financial activities of Meade County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Meade County had net assets of \$9,400,249 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,230,738, and \$4,202,311 of that is in governmental activities, as of June 30, 2005. In its business-type activities, cash and cash equivalents were \$30,008, which also equaled total assets. Total debt principal as of June 30, 2005 was \$6,374,581 with \$141,581 due within in one year.
- The government's total net assets increased by \$580,506 from the prior year.
- At the close of the current fiscal year, Meade County's governmental funds reported a fund balance of \$5,297,957. Of this amount, \$4,202,311 is available for spending at the government's discretion (unreserved fund balance).
- Meade County's total indebtedness for governmental activities at the close of fiscal year June 30, 2005 was \$6,373,000 of which \$6,233,000 is long-term debt (due after 1 year) and \$140,000 is short-term debt (to be paid within 1 year).
- Meade County expended the \$90,323 Homeland Security Grant on new radios for the implementation of the Emergency 911 system.
- Meade County Fiscal Court spent \$30,310 to have lighting protection installed, which included: courthouse complex, detention center, road department, solid waste, and the ambulance stations. This was done to reduce the insurance premium for the 2005-2006 fiscal year.
- The courthouse and detention center was treated for termites on June 15, 2005. The cost of the treatment was \$9,356.

**Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Highlights (Continued)

- The third ambulance station was set up in the lower part of the county (Payneville). The county is leasing the building for \$300 per month from the Payneville fire department. The stations are situated in the county so to increase availability and shorten response times.
- Meade County Fiscal Court received a Federal Grant, in the amount of \$4,914, to install new culverts on the Buttermilk Falls walking trail.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Meade County's basic financial statements. Meade County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Meade County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information of all of Meade County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Meade County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

**Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Government-wide Financial Statements (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Meade County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has one business type activity – the operation of a jail canteen.

The government-wide financial statements include not only Meade County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Meade County has one such entity, the Meade County Solid Waste Department. It is known as a component unit.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Meade County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Meade County can be divided into two broad categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term

Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Governmental Funds (Continued)

impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Meade County maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Ambulance Fund, Jail Fund, Local Government Economic Assistance Fund, and Jail Bond Proceeds Fund, all of which are considered major funds by the County.

Meade County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds

Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As a result of the County implementing the GASB 34 accounting format, we can compare this year's data with last year.

	<u>FY 2004</u>	<u>FY 2005</u>
Total Assets	15,796,155	15,774,830
Total Liabilities	6,976,412	6,374,581
Net Assets	8,819,743	9,400,249

**Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Changes in Net Assets (Continued)

Key elements of this are as follows:

- Cash and cash equivalents decreased by \$142,248
- Notes Receivable decreased by \$73,412
- Investments in capital assets, net of related debt increased \$731,665
- Liabilities decreased by \$603,412
- Program Revenues were \$3,300,086 for the Governmental Activities; Business-type Activities \$128,112; and the Component Unit \$1,221,876. General Revenues were \$3,446,554 for a total of \$8,096,628 as reflected in the Statement of Activities.
- Expenditures totaled \$6,169,875 for the Governmental Activities; Business-type Activities \$124,371; and the Component Units \$1,393,185 as reflected in the Statement of Activities.

Financial Analysis of the County's Funds

As noted earlier, Meade County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview

The focus on Meade County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved funds balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 30, 2005 fiscal year, the combined ending fund balance of County governmental funds was \$5,297,957. Approximately 79% (\$4,202,311) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purpose of the specific funds. The remainder of fund balance (\$1,095,646) is reserved to indicate that it is not available for new spending because it is committed.

The County has 6 major governmental funds. These are: 1) General Fund; 2) Road Fund; 3) Ambulance Fund; 4) Jail Fund; 5) Local Government Economic Assistance Fund; 6) Jail Bond Proceeds Fund.

**Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds (Continued)

1. The General Fund is the chief operating fund of Meade County. At the end of June 30, 2005 fiscal year, the fund balance was \$3,394,348. The County received \$2,936,323 from tax revenues. This accounts for approximately 76% of the General Fund.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$737,559 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$825,939. The fiscal year 2005 expenditures for road projects were \$1,036,701.
3. The Ambulance Fund had a fund balance at June 30, 2005 of \$59,611. The fiscal 2005 expenditures for ambulatory services were \$1,008,990.
4. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2005 of \$115,126. That is a decrease in fund balance of \$28,409 over the previous fiscal year end. The Jail Fund received \$822,235 from intergovernmental sources.
5. The Local Government Economic Assistance Fund had a fund balance of \$470,135 at June 30, 2005. This is a decrease of \$10,212 over the previous fiscal year end.
6. The Jail Bond Proceeds Fund is used for payment of principal and interest to bond holders and had a fund balance of \$521,178 as of June 30, 2005.

Proprietary Funds Overview

The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail. Meade County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$28,427 and a cash balance of \$30,008 as of June 30, 2005.

General Fund Budgetary Highlights

The County's original budget was not amended during the fiscal year.

Actual operating revenues were \$1,053,843 more than originally budgeted by Fiscal Court and actual operating expenditures were \$390,417 less than originally budgeted by Fiscal Court.

**Meade County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Capital Assets and Debt Administration

Capital Assets:

Meade County's investment in capital assets for its government activities as of June 30, 2005, amounts to \$9,648,865 (net of accumulated depreciation). This investment in capital assets includes, land, buildings, improvements to land and buildings, equipment, vehicles, and current year infrastructure assets per GASB 34 provisions. Additional information on the County's capital assets can be found in Note 4 of this report.

Long-Term Debt:

At the end of the 2005 fiscal year, Meade County had total long-term debt outstanding of \$6,373,000. The amount of this debt due within the next year is \$140,000 and \$6,233,000 is due in subsequent years. This debt is for Jail Construction. This debt is described in Note 5 of the notes to the financial statements.

Other Matters

During fiscal year 2004-2005 Meade County took the first initial steps towards the completion of the County's E-911 project. The County had just completed a major upgrade of its Emergency Services Radio System and it is expected to complete Phase I of the project during 2006-2007 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Meade County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this requests for additional financial information should be addressed to:

**Meade County Treasurer
Shirley Fackler
516 Fairway Drive
Brandenburg, KY 40108**

MEADE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Meade County Solid Waste Department
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 5,297,957	\$ 30,008	\$ 5,327,965	\$ 177,866
Notes Receivable	60,000	-	60,000	-
Accounts Receivable	-	-	-	70,338
Total Current Assets	5,357,957	30,008	5,387,965	248,204
Noncurrent Assets:				
Note Receivable	738,000	-	738,000	-
Capital Assets-				
Land and Land Improvements	145,814	-	145,814	21,534
Buildings	7,686,894	-	7,686,894	71,435
Building Improvements	29,182	-	29,182	58,080
Vehicles	555,609	-	555,609	657,896
Equipment	686,892	-	686,892	222,883
Office Equipment	-	-	-	34,036
Fence	-	-	-	9,437
Rock	-	-	-	7,571
Storage Buildings	-	-	-	55,103
Containers	-	-	-	106,295
Sewer Connection	-	-	-	750
Infrastructure	544,474	-	544,474	-
Less: Accumulated Depreciation	-	-	-	(858,976)
Total Noncurrent Assets	10,386,865	-	10,386,865	386,044
Total Assets	15,744,822	30,008	15,774,830	634,248
LIABILITIES				
Current Liabilities:				
Accounts Payable	-	1,581	1,581	28,184
Accrued Liabilities	-	-	-	38,071
Long-term Debt - Current Portion	-	-	-	81,117
Revenue Bonds Payable	80,000	-	80,000	-
Financing Obligations Payable	60,000	-	60,000	-
Total Current Liabilities	140,000	1,581	141,581	147,372
Noncurrent Liabilities				
Long-term Debt - Net of Current	-	-	-	456,578
General Obligation Bonds Payable	4,470,000	-	4,470,000	-
Revenue Bonds Payable	1,025,000	-	1,025,000	-
Financing Obligations Payable	738,000	-	738,000	-
Total Noncurrent Liabilities	6,233,000	-	6,233,000	456,578
Total Liabilities	6,373,000	1,581	6,374,581	603,950
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	4,073,865	-	4,073,865	(151,651)
Restricted For:				
Debt Service	1,095,646	-	1,095,646	-
Unrestricted	4,202,311	28,427	4,230,738	181,949
Total Net Assets	\$ 9,371,822	\$ 28,427	\$ 9,400,249	\$ 30,298

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs Reporting Entity	Program Revenues Received			Net (Disbursements) Receipts and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Totals
		Capital Grants and Contributions				
Primary Government:						
Governmental Activities						
General Government	\$ 2,079,026	\$ 10,800	\$ -	\$ (2,002,347)	\$ -	\$ (2,002,347)
Protection to Persons and Property	2,420,833	645,909	10,689	(216,653)	-	(216,653)
General Health and Sanitation	180,808	-	-	(180,808)	-	(180,808)
Social Services	8,946	48,436	-	39,490	-	39,490
Recreation and Culture	203,712	4,274	-	(167,948)	-	(167,948)
Roads	776,987	853,775	16,280	157,940	-	157,940
Transportation Facilities and Services	8,918	-	-	(9,918)	-	(9,918)
Bus Services	13,266	-	-	(13,266)	-	(13,266)
Interest on Long Term Debt	477,379	-	-	(477,379)	-	(477,379)
Total Governmental Activities	6,169,875	1,563,194	26,969	(2,869,789)	-	(2,869,789)
Business-type Activities:						
Jail Canteen Fund	124,371	-	-	-	3,741	3,741
Total Business-type Activities	124,371	-	-	-	3,741	3,741
Total Primary Government	6,294,246	1,563,194	26,969	(2,869,789)	3,741	(2,886,048)
Component Unit:						
Meade County Solid Waste Department	\$ 1,393,185	\$ -	\$ -			(171,309)
General Revenues:						
Taxes:						
Real Property Taxes				1,260,494	-	1,260,494
Personal Property Taxes				277,336	-	277,336
Motor Vehicle Taxes				180,456	-	180,456
Insurance License/fee taxes				824,826	-	824,826
Other Taxes				393,211	-	393,211
Excess Fees				149,714	-	149,714
Licenses and Permits				88,270	-	88,270
Unrestricted Investment Earnings				176,637	-	176,637
Miscellaneous Revenues				95,610	-	95,610
Total General Revenues and Transfers				3,446,554	-	3,446,554
Change in Net Assets				576,765	3,741	580,506
Net Assets - Beginning				8,795,057	24,686	8,819,743
Net Assets - Ending				\$ 9,371,822	\$ 28,427	\$ 9,400,249

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
JUNE 30, 2005

	General Fund	Road Fund	Ambulance Fund	Jail Fund	LGEA Fund	Jail Bond Proceeds Fund	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 3,394,348	\$ 737,559	\$ 59,611	\$ 115,126	\$ 470,135	\$ 521,178	\$ 5,297,957
Total Assets	<u>3,394,348</u>	<u>737,559</u>	<u>59,611</u>	<u>115,126</u>	<u>470,135</u>	<u>521,178</u>	<u>5,297,957</u>
FUND BALANCES							
Reserved for:							
Encumbrances	325,319	198,283	-	27,216	23,650	-	574,468
Debt Service Fund	-	-	-	-	-	521,178	521,178
Unreserved							
General Fund	3,069,029	-	-	-	-	-	3,069,029
Special Revenue Funds	-	539,276	59,611	87,910	446,485	-	1,133,282
Total Fund Balances	<u>\$ 3,394,348</u>	<u>\$ 737,559</u>	<u>\$ 59,611</u>	<u>\$ 115,126</u>	<u>\$ 470,135</u>	<u>\$ 521,178</u>	<u>\$ 5,297,957</u>

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
JUNE 30, 2005

Reconciliation of the Balance Sheet - Government Funds to the Statement of Net Assets:

Total Fund Balances	\$ 5,297,957
Amounts reported for governmental activities in the statement of net assets are different because:	
Notes receivable used in governmental activities are not financial resources	798,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	13,069,869
Accumulated depreciation	(3,421,004)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds .	
General Obligation Bonds	(4,470,000)
Revenue Bonds	(1,105,000)
Financing Obligations	<u>(798,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 9,371,822</u></u>

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Road Fund	Ambulance Fund	Jail Fund	LGEA Fund	Jail Bond Proceeds Fund	Total Governmental Funds
REVENUES							
Taxes	\$ 2,936,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,936,323
Excess Fees	149,714	-	-	-	-	-	149,714
Licenses and Permits	88,270	-	-	-	-	-	88,270
Intergovernmental	194,866	853,775	-	822,235	430,882	-	2,301,758
Charges for Services	42,793	76,239	570,262	57,926	-	-	747,220
Miscellaneous	249,804	4,913	-	92,001	-	-	346,718
Interest	181,554	13,394	-	779	6,392	25,399	227,518
Total Revenues	<u>3,843,324</u>	<u>948,321</u>	<u>570,262</u>	<u>972,941</u>	<u>437,274</u>	<u>25,399</u>	<u>6,797,521</u>
EXPENDITURES							
General Government	1,082,433	-	-	13,312	-	-	1,095,745
Protection to Persons and Property	13,403	-	1,008,990	1,012,877	390,661	-	2,425,931
General Health and Sanitation	82,169	-	-	53,127	-	-	135,296
Social Services	8,946	-	-	-	-	-	8,946
Recreation and Culture	175,451	-	-	-	8,033	-	183,484
Roads	-	909,569	-	-	-	-	909,569
Transportation Facilities and Services	-	8,918	-	-	-	-	8,918
Bus Services	13,266	-	-	-	-	-	13,266
Debt Services	277,091	3,500	-	-	-	800,200	1,080,791
Administration	687,460	114,714	-	172,034	52,734	-	1,026,942
Total Expenditures	<u>2,340,219</u>	<u>1,036,701</u>	<u>1,008,990</u>	<u>1,251,350</u>	<u>451,428</u>	<u>800,200</u>	<u>6,888,888</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,503,105</u>	<u>(88,380)</u>	<u>(438,728)</u>	<u>(278,409)</u>	<u>(14,154)</u>	<u>(774,801)</u>	<u>(91,367)</u>
Other Financing Sources (Uses)							
Transfers From Other Funds	-	-	-	250,000	3,942	451,364	705,306
Transfers To Other Funds	(705,306)	-	-	-	-	-	(705,306)
Total Other Financing Sources (Uses)	<u>(705,306)</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>3,942</u>	<u>451,364</u>	<u>-</u>
Net Change in Fund Balances	797,799	(88,380)	(438,728)	(28,409)	(10,212)	(323,437)	(91,367)
Fund Balances - Beginning	2,596,549	825,939	498,339	143,535	480,347	844,615	5,389,324
Fund Balances - Ending	<u>\$ 3,394,348</u>	<u>\$ 737,559</u>	<u>\$ 59,611</u>	<u>\$ 115,126</u>	<u>\$ 470,135</u>	<u>\$ 521,178</u>	<u>\$ 5,297,957</u>

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (91,367)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the
statement of activities the cost of those assets are allocated over their
estimated useful lives and reported as depreciation expense.

Capital outlay	643,823
Depreciation expense	(505,691)

Change in notes receivable as a result of payment on debt by the Meade County Solid Waste District and Meade County Water District	(73,412)
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Financing obligations and bond principal payments are expensed in the
Governmental Funds as a use of current financial resources. However,
these amounts decrease non-current liabilities on the statement of net
assets and have been eliminated on the statement of activities.

Financing Obligations	73,412
Revenue Bonds	80,000
General Obligation Bonds	<u>450,000</u>

Change in Net Assets of Governmental Activities	<u>\$ 576,765</u>
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The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND - MODIFIED CASH BASIS
JUNE 30, 2005

	Business-Type Activities- Enterprise Fund
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 30,008
Total Current Assets	<u>30,008</u>
Liabilities	
Current Liabilities:	
Accounts Payable	<u>1,581</u>
Total Current Liabilities	<u>1,581</u>
Net Assets	
Unrestricted	28,427
Total Net Assets	<u>\$ 28,427</u>

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-
PROPRIETARY FUND - MODIFIED CASH BASIS
JUNE 30, 2005

	<u>Business-Type Activities- Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Revenues	\$ 128,112
Total Operating Revenues	<u>128,112</u>
Operating Expenses	
Cost of Goods Sold and Other Expenses	124,371
Total Operating Expenses	<u>124,371</u>
Operating Income	<u>3,741</u>
Change In Net Assets	3,741
Total Net Assets - Beginning	24,686
Total Net Assets - Ending	<u>\$ 28,427</u>

The accompanying notes are an integral part of the financial statements.

MEADE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - MODIFIED CASH BASIS
JUNE 30, 2005

	<u>Business-Type Activities- Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Canteen Receipts	\$ 128,112
Cost of Goods Sold and Other Expenses	<u>122,790</u>
Net Cash Provided by Operating Activities	<u>5,322</u>
Cash and Cash Equivalents - July 1, 2004	24,686
Cash and Cash Equivalents - June 30, 2005	<u>\$ 30,008</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 3,741
Change in accounts payable	<u>1,581</u>
Net Cash Provided By Operating Activities	<u>\$ 5,322</u>

The accompanying notes are an integral part of the financial statements.

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. However, the financial statements of the Meade County Solid Waste Department, a discretely presented component unit, have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Meade County, Kentucky, uses to prepare its financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Meade County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Discretely Presented Component Units

The component unit's columns in the government-wide financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organizations' separateness from the fiscal court's primary government.

Meade County Solid Waste Department

The Meade County Solid Waste Department (Department) was created and exists pursuant to the provisions of Kentucky Revised Statutes 109 and by the Fiscal Court. The Department was created with the mission to provide garbage collection of solid waste in Meade County. The Fiscal Court appoints a majority of the Department's board and the Department was deemed a component unit of Meade County Fiscal Court. The Department is included as a discretely presented component unit on Meade County's financial statements and was audited by other auditors. A copy of this report may be obtained from the Meade County Treasurer.

Meade County Riverport Authority

The Meade County Riverport Authority was created to bring businesses to Meade County along the Ohio River. The Authority had no assets or activity on its own in fiscal year 2005.

C. Meade County Constitutional Elected Officials

The Kentucky constitution provides for election of the officials below from the geographic area constituting Meade County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

C. Meade County Constitutional Elected Officials (Continued)

can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Meade County, Kentucky.

Circuit Court Clerk
County Attorney
Property Valuation Administrator
County Clerk
County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes, and unrestricted state funds, are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund – The purpose of this fund is to account for collections made for the ambulatory services provided by the county. The funds are used for public safety. The Ambulance Fund was separated from the General Fund this fiscal year and reported as a major fund.

LGEA Fund – The purpose of this fund is to account for funds received from the state for mineral severance taxes and E-911 service collections. The funds are used primarily for public safety.

Jail Bond Proceeds Fund – The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The Jail Bond Proceeds Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessments, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the governments capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings and Building Improvements	\$ 5,000	3-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, is reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are considered encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1. The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Meade County Fiscal Court: Meade County Tourism Commission, Meade County Water District, Meade County Planning and Zoning, Meade County Fire Department, Meade County Conservation District, and the Meade County Library District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Meade County Fiscal Court: Meade County Industrial Authority.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Operating Leases

The fiscal court entered into a lease agreement for an old state highway garage building and land to be used by various county departments. The total expense related to these leases was \$3,500 for the fiscal year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

Fiscal Year Ended	Amount
<u>June 30</u>	
2006	\$ 3,500
2007	3,500
2008	3,500
2009	3,500
2010	<u>3,500</u>
Total Minimum Lease Payments	<u>\$ 17,500</u>

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government: Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 115,551	\$ -	\$ -	\$ 115,551
Total Capital Assets Not Being Depreciated	115,551	-	-	115,551
Capital Assets Being Depreciated:				
Buildings	9,651,627	-	-	9,651,627
Building Improvements	31,720	-	-	31,720
Land Improvements	196,353	-	-	196,353
Equipment	770,787	277,991	-	1,048,778
Vehicles	1,270,321	101,771	-	1,372,092
Infrastructure	389,687	264,061	-	653,748
Total Capital Assets Being Depreciated	12,310,495	643,823	-	12,954,318
Less Accumulated Depreciation For:				
Buildings	(1,771,700)	(193,033)	-	(1,964,733)
Building Improvements	(1,269)	(1,269)	-	(2,538)
Land Improvements	(162,163)	(3,927)	-	(166,090)
Equipment	(257,008)	(104,878)	-	(361,886)
Vehicles	(679,274)	(137,209)	-	(816,483)
Infrastructure	(43,899)	(65,375)	-	(109,274)
Total Accumulated Depreciation	(2,915,313)	(505,691)	-	(3,421,004)
Total Capital Assets Being Depreciated, Net	9,395,182	138,132	-	9,533,314
Governmental Activities Capital Assets, Net	\$ 9,510,733	\$ 138,132	\$ -	\$ 9,648,865

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 60,683
Protection to Persons and Property	247,789
General Health and Sanitation	45,512
Recreation and Culture	20,228
Roads, Including Depreciation of General Infrastructure Assets	<u>131,479</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 505,691</u></u>

Note 5. Long-term Debt

A. General Obligation Bonds, Series 1999

Meade County Fiscal Court issued general obligation bonds of \$5,330,000, series 1999, dated July 1, 1999, to finance construction of the new detention facility. These bonds were issued at varying interest rates ranging from 3.9% to 4.9%, and will be retired by July 1, 2019. Interest payments are due on January 1 and interest and principal July 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ -0-	\$ 216,535
2007	240,000	206,545
2008	245,000	196,056
2009	255,000	185,118
2010-2014	1,465,000	734,580
2015-2019	1,840,000	338,100
2020	<u>425,000</u>	<u>10,413</u>
 Totals	 <u><u>\$ 4,470,000</u></u>	 <u><u>\$ 1,887,347</u></u>

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 5. Long-term Debt (Continued)

B. Health Care Facility Revenue Bonds, Series 1995

Meade County Fiscal Court issued health care facility revenue bonds, series 1995, dated February 1, 1995, to fund the construction of a health care facility to be operated by JH Properties, Inc. JH Properties makes the principal and interest payments in lieu of rent, to the bond trustee. These bonds were issued at an interest rate of 6.49%, and will be retired by October 1, 2014. Interest payments are due on April 1; interest and principal October 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 80,000	\$ 69,118
2007	90,000	63,602
2008	90,000	57,761
2009	100,000	51,595
2010-2014	600,000	149,638
2015	145,000	4,705
Totals	<u>\$ 1,105,000</u>	<u>\$ 396,419</u>

C. Water District – Financing Obligations and Notes Receivable

1. Waterlines

On November 8, 1995, the fiscal court, on behalf of the Meade County Water District, entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$795,000 at 5.15% for the construction of waterlines. The lease term is for 20 years with the balance to be paid in full on January 20, 2015. The Meade County Water District makes the principal and interest payments to the fiscal court, which in turn pays the trustee. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005

Note 5. Long-term Debt (Continued)

C. Water District – Financing Obligations and Notes Receivable (Continued)

1. Waterlines (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 40,000	\$ 30,337
2007	42,000	30,008
2008	45,000	25,146
2009	47,000	22,316
2010-2014	272,000	64,194
2015	62,000	2,233
Totals	<u>\$ 508,000</u>	<u>\$ 174,234</u>

2. Building

On December 18, 2001, the fiscal court on behalf of the Meade County Water District entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$350,000 at 4.6% for the construction of a building. The lease term is for 15 years with the balance to be paid in full on January 20, 2016. The Meade County Water District makes the principal and interest payments to the fiscal court, which in turn pays the trustee. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 20,000	\$ 15,158
2007	20,000	15,203
2008	25,000	12,893
2009	25,000	11,548
2010-2014	140,000	36,414
2015-2016	60,000	3,498
Totals	<u>\$ 290,000</u>	<u>\$ 94,714</u>

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 5. Long-term Debt (Continued)

D. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,920,000	\$ -	\$ 450,000	\$ 4,470,000	\$ -
Revenue Bonds	1,185,000	-	80,000	1,105,000	80,000
Financing Obligations	871,412	-	73,412	798,000	60,000
Governmental activities Long-term Liabilities	<u>\$ 6,976,412</u>	<u>\$ -</u>	<u>\$ 603,412</u>	<u>\$ 6,373,000</u>	<u>\$ 140,000</u>

Note 6. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$49,369 in interest on financing obligations and \$424,510 in interest on bonds.

Note 7. Employee Retirement System

The fiscal court and the Meade County Solid Waste Department, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual

**MEADE COUNTY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2005**

Note 7. Employee Retirement System (Continued)

financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Meade County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. That report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Meade County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$2,231,689	\$2,231,689	\$2,936,323	\$ 704,634
Excess Fees	135,724	135,724	149,714	13,990
Licenses and Permits	80,000	80,000	88,270	8,270
Intergovernmental	163,268	163,268	194,866	31,598
Charges for Services	38,800	38,800	42,793	3,993
Miscellaneous	117,000	117,000	249,804	132,804
Interest	23,000	23,000	181,554	158,554
Total Revenues	<u>2,789,481</u>	<u>2,789,481</u>	<u>3,843,324</u>	<u>1,053,843</u>
EXPENDITURES				
General Government	1,282,243	1,282,243	1,082,433	199,810
Protection to Persons and Property	18,244	18,244	13,403	4,841
General Health and Sanitation	94,413	94,413	82,169	12,244
Social Services	13,290	13,290	8,946	4,344
Recreation and Culture	174,122	174,122	175,451	(1,329)
Bus Services	28,000	28,000	13,266	14,734
Debt Services	173,000	173,000	277,091	(104,091)
Administration	947,324	947,324	687,460	259,864
Total Expenditures	<u>2,730,636</u>	<u>2,730,636</u>	<u>2,340,219</u>	<u>390,417</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>58,845</u>	<u>58,845</u>	<u>1,503,105</u>	<u>1,444,260</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	<u>(754,875)</u>	<u>(754,875)</u>	<u>(705,306)</u>	<u>49,569</u>
Total Other Financing Sources (Uses)	<u>(754,875)</u>	<u>(754,875)</u>	<u>(705,306)</u>	<u>49,569</u>
Net Change in Fund Balances	<u>(696,030)</u>	<u>(696,030)</u>	<u>797,799</u>	<u>1,493,829</u>
Fund Balances - Beginning	<u>696,030</u>	<u>696,030</u>	<u>2,596,549</u>	<u>1,900,519</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,394,348</u>	<u>\$ 3,394,348</u>

MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

ROAD FUND				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,049,201	\$ 1,049,201	\$ 853,775	\$ (195,426)
Charges for Services	48,000	48,000	76,239	28,239
Miscellaneous	2,000	2,000	4,913	2,913
Interest	5,000	5,000	13,394	8,394
Total Revenues	<u>1,104,201</u>	<u>1,104,201</u>	<u>948,321</u>	<u>(155,880)</u>
EXPENDITURES				
Roads	1,283,072	1,283,072	909,569	373,503
Transportation Facilities and Services	7,500	7,500	8,918	(1,418)
Debt Services	3,500	3,500	3,500	-
Administration	185,557	185,557	114,714	70,843
Total Expenditures	<u>1,479,629</u>	<u>1,479,629</u>	<u>1,036,701</u>	<u>442,928</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(375,428)</u>	<u>(375,428)</u>	<u>(88,380)</u>	<u>287,048</u>
Net Change in Fund Balances	(375,428)	(375,428)	(88,380)	287,048
Fund Balances - Beginning	375,428	375,428	825,939	450,511
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 737,559</u>	<u>\$ 737,559</u>

MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 500,000	\$ 500,000	\$ 570,262	\$ 70,262
Total Revenues	<u>500,000</u>	<u>500,000</u>	<u>570,262</u>	<u>70,262</u>
EXPENDITURES				
Protection to Persons and Property	989,200	989,200	1,008,990	(19,790)
Total Expenditures	<u>989,200</u>	<u>989,200</u>	<u>1,008,990</u>	<u>(19,790)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(489,200)</u>	<u>(489,200)</u>	<u>(438,728)</u>	<u>50,472</u>
Net Change in Fund Balances	(489,200)	(489,200)	(438,728)	50,472
Fund Balances - Beginning	489,200	489,200	498,339	9,139
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,611</u>	<u>\$ 59,611</u>

MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

JAIL FUND				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
REVENUES				
Intergovernmental	\$ 898,102	\$ 898,102	\$ 822,235	\$ (75,867)
Charges for Services	67,000	67,000	57,926	(9,074)
Miscellaneous	73,347	73,347	92,001	18,654
Interest	2,000	2,000	779	(1,221)
Total Revenues	1,040,449	1,040,449	972,941	(67,508)
EXPENDITURES				
General Government	7,000	7,000	13,312	(6,312)
Protection to Persons and Property	1,104,440	1,104,440	1,012,877	91,563
General Health and Sanitation	38,049	38,049	53,127	(15,078)
Administration	245,300	245,300	172,034	73,266
Total Expenditures	1,394,789	1,394,789	1,251,350	143,439
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(354,340)	(354,340)	(278,409)	75,931
Other Financing Sources (Uses)				
Transfers From Other Funds	310,000	310,000	250,000	(60,000)
Total Other Financing Sources (Uses)	310,000	310,000	250,000	(60,000)
Net Change in Fund Balances	(44,340)	(44,340)	(28,409)	15,931
Fund Balances - Beginning	44,340	44,340	143,535	99,195
Fund Balances - Ending	\$ -	\$ -	\$ 115,126	\$ 115,126

MEADE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

LGEA FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$408,000	\$402,000	\$ 430,882	\$ 28,882
Interest	5,000	5,000	6,392	1,392
Total Revenues	<u>413,000</u>	<u>407,000</u>	<u>437,274</u>	<u>30,274</u>
EXPENDITURES				
Protection to Persons and Property	395,223	389,223	390,661	(1,438)
Recreation and Culture	20,645	20,645	8,033	12,612
Administration	75,800	75,800	52,734	23,066
Total Expenditures	<u>491,668</u>	<u>485,668</u>	<u>451,428</u>	<u>34,240</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(78,668)</u>	<u>(78,668)</u>	<u>(14,154)</u>	<u>64,514</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	-	-	3,942	3,942
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>3,942</u>	<u>3,942</u>
Net Change in Fund Balances	(78,668)	(78,668)	(10,212)	72,398
Fund Balances - Beginning	78,668	78,668	480,347	401,679
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,135</u>	<u>\$ 474,077</u>

MEADE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Joseph E. Richardson
William A. Talley
Jon D. Chesser
Bob E. Wientjes
Ruth A. Payne

Kentucky Offices:
Louisville
Brandenburg
Hardinsburg
Leitchfield

The Honorable William B. Haynes, Meade County Judge/Executive
Members of the Meade County Fiscal Court

Report on Internal Control Over Financial Reporting And
On Compliance and Other Matters Based On An Audit of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Meade County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 15, 2006 wherein, we issued a qualified opinion on the discretely presented component unit. The Meade County Solid Waste Department, a discretely presented component unit, was tested for compliance and internal control requirements in accordance with Government Auditing Standards by other auditors, whose report has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Meade County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Meade County Fiscal Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the Board's control such as by budgetary constraints. Due to limited staff, a proper segregation of duties may be

impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meade County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Meade County, Kentucky, in a separate letter, dated May 15, 2006.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

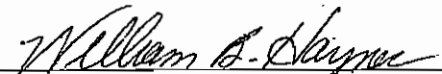
Richardson, Pennington, & Skinner, PSC

Audit fieldwork completed –
May 15, 2006

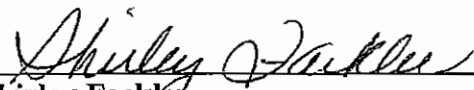
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MEADE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Meade County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William B. Haynes
County Judge/Executive



Shirley Fackler
County Treasurer